

The following brief information is provided to present the perspective on the recommendations contained in the *Executive Budget*. Further information is available in the *Executive Budget Detail* pages for each agency, which can be found at <http://www2.state.id.us/dfm>, or you may contact the appropriate DFM analyst as identified in the staff assignment list preceding the Table of Contents.

Themes

- Preserving the economic engine and the future through continued commitment to education, workforce development and economic investment.
- Providing proper safety-net care for the elderly and disadvantaged.
- Recognizing the contributions of the state workforce through continued funding of expected health insurance inflation, Public Employee Retirement System changes, and other worker benefit programs.
- Ensuring continued high state bond ratings through judicious use of state bonding authority for capital construction projects.
- Minimizing revenue and expenditure fluctuations through stable tax policies and fiscal management.
- Exercising restraint in budget expenditures as the state adjusts to changing economic conditions.
- Minimizing the use of one-time financial resources during transitional adjustments in expenditure patterns.
- Providing multi-year budget and revenue strategies.

FY 2003 Budget Highlights

- FY 2003 General Fund revenue (excluding the temporary sales tax increase) grew 3.0% over the previous fiscal year.
- Implementing a temporary increase in the state sales tax from 5.0% to 6.0% on May 1, 2003 generated an estimated \$13.0 million in FY 2003.
- A total of \$194.3 million was transferred from other funds to the General Fund:
 - Budget Stabilization Fund - \$53,090,000
 - Millennium Fund - \$70,311,500
 - Permanent Building Fund - \$55,000,000
 - Capitol Endowment Fund - \$7,900,000
 - Retained Risk Fund - \$5,000,000
 - Water Pollution Control Fund - \$3,000,000
- Most state departments General Fund appropriations were reduced by 3.5% saving \$19.5 million. Public Schools, the Colleges and Universities, Community Colleges, Professional Technical Education, Deaf and Blind School, and several other educational entities were exempt.
- An additional \$22.5 million in savings were generated through reversions ordered by the Governor.
- The year ended with a General Fund balance of \$15.7 million.

Introduction

FY 2004 Budget Highlights

- FY 2004 General Fund revenue (excluding 2003 Legislative changes) is currently expected to grow 4.4% over FY 2003 actual revenue (excluding 2003 legislative changes). The \$1,828.3 million estimate is \$13.9 million less than the Legislature's February 2003 estimate.
- Including Legislative changes and one-time Federal tax relief funds, the Governor's FY 2004 General Fund revenue estimate is \$2,076.2 million. The \$247.9 million in additional revenue comes from:
 - Temporary (26 months) 6.0% sales tax - \$170,460,000
 - Temporary (24 months) 29 cent/pack cigarette tax increase - \$22,150,000
 - Impact of adding tax compliance staff (one-time) - \$5,320,000
 - Miscellaneous other legislation - \$50,000
 - Federal Tax Relief Reconciliation Act (one-time) - \$50,000,000
- There are \$11.9 million in recommended transfers to deficiency warrant funds:
 - Department of Lands Fire Suppression Fund - \$11,600,000
 - Department of Agriculture Pest Control Fund - \$223,500
 - Military Division Hazardous Substance Response Fund - \$92,000
- There are \$2.6 million in recommended General Fund supplementals:
 - Catastrophic Health Care program costs - \$4,000,000 (one-time)
 - Department of Health and Welfare Children's Health Insurance Program (CHIP) access card costs- \$415,500
 - Department of Agriculture federal grant interest repayment - \$147,200
 - State Board of Examiners county legal costs - \$8,500
 - Department of Correction additional security for lock replacement - \$46,600
 - Department of Correction remove contingency – (\$1,000,000)
 - Department of Juvenile Corrections remove most of reappropriation – (\$1,000,000)
- The FY 2004 recommendation also includes a \$15.0 million one-time General Fund savings in the Medicaid Program. The Federal Tax Relief Reconciliation Act increased the federal medical assistance percentage from April 2003 through June 2004. This reduces the state match rate saving about \$30.4 million in FY 2004. At the same time, caseload growth is expected to cost the state an additional \$15.4 million this year.
- We expect to end the year with a General Fund balance of \$72.2 million. These funds are not to be spent in FY 2004 or FY 2005, but reserved for FY 2006 when the temporary sales tax expires.

FY 2005 Budget Highlights

- FY 2005 General Fund revenue (excluding 2003 Legislative changes) is predicted to be \$1,940.9 million. This is 6.2% over the normalized FY 2004 revenue estimate.
- Including Legislative changes, the Governor's FY 2005 General Fund revenue estimate is \$2,117.4 million. Almost all of the additional revenue is generated by the temporary sales tax increase.
- The Governor is proposing four tax relief proposals that collectively cost \$3.0 million. Three of the four continue temporary tax credits implemented in FY 2002 and make them permanent, while the fourth one is a doubling of a tax deduction provided in FY 2002. The proposals are:
 - Continue the research and development tax credit – (\$1,250,000)
 - Continue the broadband investment tax credit – (\$1,000,000)

- Continue the expanded jobs credit – (\$300,000)
 - Double the long term care insurance premium tax deduction – (\$500,000)
- The Governor also recommends transferring \$20.8 million to the Budget Stabilization Fund as required by *Idaho Code* 57-814. This will begin to replenish this Fund, which was totally depleted to help balance the FY 2003 General Fund budget.
- An additional \$13.4 million is transferred to the State Refund Fund for agricultural property tax relief as required by *Idaho Code* 63-3067.
- General Fund expenditures grow by 3.98% over the FY 1994 original appropriation. Excluding Medicaid, which receives a 15.4% increase, the remainder of the state General Fund budget will grow by only 2.3%.
- Health care issues drive most of the growth in the state budget. This can be seen by looking at the list of the largest General Fund increases:
 - Medicaid caseload growth - \$25,056,600
 - Medical inflationary increase (3.5%) - \$10,182,600
 - CHIP costs - \$3,959,000
 - State Department personnel benefit roll-up costs - \$10,943,000
 - Public School personnel benefit roll-up costs - \$4,457,300
 - State Department employee compensation (2.0%) - \$10,002,100
 - Public School employee compensation - \$10,002,100
 - Public School support unit growth - \$12,971,400
- The Governor's budget leaves the FY 2005 General Fund budget with an ending balance of \$68.5 million. These funds are to be used in FY 2006 when the temporary sales tax increase is scheduled to expire.

FY 2006 Budget Plan

- The Governor's budget plan is to manage financial resources to meet the goal of letting current sunset provisions of the temporary sales tax and cigarette tax to expire on June 30, 2005.
- The preliminary FY 2006 General Fund revenue estimate (excluding 2003 Legislative changes) is \$2,039.6 million. This is 5.1% over the normalized FY 2005 revenue estimate. Incorporating the impact of 2003 Legislative changes and the Governor's FY 2005 tax relief proposals raises total revenue to \$2,050.3 million.
- The FY 2005 General Fund ending balance of \$68.5 million will be available for use in FY 2006.
- The Governor also recommends that one-time sources of funding, including the amount expected to be in the Economic Recovery Reserve Fund, be available for transfer into the General Fund to pay for the General Fund cost of the twenty-seventh payroll.
- Total General Fund revenue is expected to provide approximately a 2.0% increase in General Fund expenditures including the cost of the twenty-seventh payroll.
- There will also be some \$96.0 million in reserves: \$20.8 million in the Budget Stabilization Fund and \$75.2 million in the Millennium Fund.